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AN UNDISCRIMINATING INCOME TAX RECONSIDERED. By WILLIAM LUCAS SARGANT, author of "Social Innovators and their Schemes," "Science of Social Opulence," &c.

I.—Introduction. House of Commons' Report. 'Conflicting Authorities.'

ON the 16th of April last year (1861), I read before the Statistical Society a paper on the principles of the income tax. Mr. Hubbard's committee of the House of Commons was at that time pursuing its inquiries, and in the following August made its report, pronouncing against the expediency of any alteration in the incidence of the tax. Since that time I have carefully considered that report, and the evidence on which it was founded.

An epitome of the blue book presented to the House, a short account of the ingenious and searching and perplexing questions put to the able witnesses by the distinguished members of the committee, might be a boon to those who shrink from the task of wading through the long double columns of the report, but I have preferred a task not so easily performed. My perusal of this blue book, and a reference to the evidence of May and June, 1852, given before Mr. Hume's committee, suggested to me many doubts as to the accuracy of the principles of taxation commonly propounded. Comparing the evidence of the highest authorities in favour of a discriminating tax, and the very various and inconsistent reasons adduced in support of it, I inferred that there was no agreement as to the rudimentary principles of taxation. All, indeed, appealed to Adam Smith's dictum, but each one interpreted it after his own fashion.

I found one authority stating that a man ought to be taxed in proportion to the income which he can afford to spend; and that as the income tax is only temporary, its incidence ought to be nearly *the same* as that of indirect imposts. I found another stating that the income tax ought to be regarded as permanent; and that, among many other advantages, it possessed this eminent one—that its incidence was quite *different* from that of indirect imposts, since it took toll from those fortunate men who, with large incomes and few wants, contributed little to taxes on expenditure. I found a third stating that men should pay in proportion to their ability; that that ability should be estimated, not according to present income, but according to the property possessed; property, however, being taken to mean, not merely land, houses, funds, and other *external* objects,

but also skill, abilities, and everything else *inherent* in the tax-payer: besides that every income should be regarded as an annuity, and should be taxed according to its present capitalized value. A fourth told me that savings ought not to be taxed, because when invested they yield an income which is afterwards subject to assessment; and that as it is impossible to make allowance for individual frugality, the Government ought to presume that savings will be made by those classes whose incomes are of short or uncertain duration; further, that justice requires each individual to pay, not an equal proportion of his income, but such a sum as shall in every case entail an equal sacrifice. Other opinions I found expressed: that capital should not be taxed in passing from hand to hand; that savings are capital, and should therefore be exempted; that professional education and waiting for practice are virtually capital, and give a claim to exemption; that the tax-gatherer should go to *persons, not things*; that he should go to *things, not persons*; that age *should* be taken into account; that age should *by no means* be taken into account.

II.—*Appeal to First Principles. A Fictitious Colony establishes a Government. The Cost of Governing is the Measure of Taxation.*

All these divers and conflicting opinions I find put forth by men who agree in desiring a reduction in the rate of tax, in favour of professional men, of traders, and of holders of terminable annuities. And as several of these witnesses are of the highest authority in political philosophy, I infer that there is something wanting at the root of the matter; and that the elementary principles of taxation are not yet agreed upon. I know the dangerous uncertainty of an appeal to abstract principles, but such an appeal is necessary in the last resort, and is, in truth, nothing more than the proceeding of Adam Smith, when, in his much quoted dictum, he compares the country to a great estate, each of the owners of which ought to pay for its management in proportion to the revenue he derives from it.

At the present day nothing is more unpalatable than an appeal to the origin of Government and the social contract; because it is felt that such notions are fictitious, and cannot be verified by experience. But we have in modern colonies, and especially in new American settlements, something going on which is analagous to a social contract, and what, at the same time, is sufficiently near to us to save us from gross errors of interpretation.

Let us, then, imagine a colony such as that of Salt Lake, recently planted quite in the wilderness; so far removed from a central power as to be practically independent; and at any rate at liberty to construct what government it pleases for local purposes. The first rude stage—the period of Lynch law—having passed away, the settlers meet together to agree upon mutual arrangements for protec-

tion from the Indians without, and depredators within. With the machinery agreed upon, with the militia and the police, the congress and the governor, we are not concerned; what we want to know is, how the taxes for supporting them would be levied.

How are a hundred thousand dollars to be raised annually? each man desires to know what share he will have to pay. First, there are two clearings, side by side, of equal extent and fertility, and exposed in the same degree to Indian attacks and domestic injuries; both the owners will be required to pay the same share of the 100,000 dollars. A third clearing is equal in every respect to the two former taken together; as much must be paid in respect of this one as of the other two. The owner of a fourth clearing feels himself more exposed than his neighbours, and asks for a double share of protection; he must pay double taxes. The owner of a fifth clearing relies on his natural defences and his own right arm, and as he wants no protection he is excused from contributing.

In all these cases there is one simple principle by which the contribution of each colonist is determined: everyone pays in proportion to the expense incurred by Government in protecting him. Just as he pays the storekeeper for the goods he buys, the lawyer for the advice he asks, the ploughman for the labour he hires, so he pays the Government for the protection he receives; and the amount he contributes is not regulated by the colonist's ability to pay, but by the cost incurred by Government on his behalf. This principle has been overlooked, or slighted, in most if not in all the reasonings I have seen. It has been stated, indeed, that a man pays for the protection he receives; but it has not been stated that, in the first instance, the amount he pays is only a reimbursement of the expense incurred by Government on his behalf.

I do not pretend that the simple state of things I have described bears any near resemblance to the complex condition of affairs in this country, But the illustration has suggested to me the propriety of inquiring, whether the principle I have mentioned may not be made use of in solving the knotty questions we have to deal with; whether each man among ourselves ought not, if it were possible, to contribute such a share of tax as would reimburse to his Government the expense incurred in protecting him and his property; whether by far the greater part of the public expenditure is not incurred for the purposes of protection; and whether as to that smaller part of the expenditure which is incurred for other purposes, such as education, promotion of art, and maintenance of the greatness and dignity, rather than the security of the country, other maxims ought not to prevail.

III.—*Should Taxation in the Colony be Modified according to Age, Tenure, Capitalized Value, Savings, Sacrifice Required, Benefit Received, Earned and Independent Incomes, Exemptions for Small Incomes, Graduation according to Wealth, Distinction between Current Expenditure and Permanent Improvements?*

At this point, we may, I think, advantageously inquire how far there might be applied to this primitive state of society, those rules of taxation which have been proposed for *our* guidance. The result of the inquiry, though not conclusive as to ourselves, may yet be suggestive.

1. First, it is alleged that the age* of the tax-payer ought to be taken into account in his assessment; a man of thirty, it is said, having a greater expectation of life than a man of seventy, ought to pay at a higher rate. Is this rule applicable in the colony?

I have assumed, in the first instance, the existence side by side, of two clearings, equally large, equally fertile, equally exposed to injuries. I have said that the owners would be required to pay the same share of 100,000 dollars. But what if one of them were a man of thirty, the other a man of seventy? Would this make any difference? The older man might say to the other, my expectation of life is twenty years less than yours, and I am, therefore, bound to save more than you are. I cannot hope to enjoy my income more than ten years; you may hope to enjoy yours thirty years; the present value of my expectation is far less than yours. In short, my ability to pay, and my stake in the colony, are far less than yours; therefore, I ought to pay a proportionably less tax. The younger man might answer thus:—I am not curious to inquire into the truth of your political arithmetic. I am satisfied with this plain reply. The militia and the police, guided by the central authority, now perform for us certain important duties, which we have hitherto performed for ourselves. To defend your clearing, costs the Government just as much as it costs it to defend my clearing; you and I, in paying the same tax, pay each of us for what we receive. When your ironmonger, and your lawyer, and your labourer, furnish you with commodities and services at a reduced rate, in consideration of your advanced age, then the Government may be justly called on to reduce your assessment. This answer seems to me conclusive; and I think that in this early stage of society, when protection is the sole function of Government, the cost of that protection is the just foundation of all assessments, and that the age of the tax-payer is beside the question.

2. Secondly, let us consider the matter of tenure. Both of the

* I do not pretend to be dealing here with the opinions of Dr. Farr and the actuaries.

twin clearings may have cost labour to the value of 15 or 20 dollars an acre, to bring them into their present condition. Now the owner of the one may have a reasonable hope that his estate will retain its value in perpetuity; whereas, the other owner may have become aware that an unfavourable change is taking place in the channel of a river, and that in a few years, perhaps in a year or two, his whole labours will be swallowed up. If B in this case says to A:—Your ability to pay taxes is greater than mine, because the shortness of my tenure obliges me to save: A will reply, as in the former instance, your estate costs as much to protect it as mine costs; and as the Government has taken this duty off your hands (a duty which previously cost you just as much as it cost me), and as the Government now expends on your behalf just as much as it expends on my behalf, your tax ought to be the same as mine. This reply seems to me conclusive, as regards this hypothetical state of society.

3. Incidentally, the question of capitalized value has been touched upon in both the above cases. In the first, the *older* man claims a reduction of assessment, on the ground that the present value of *his* expectation of income, is less than the present value of *the younger man's* expectation of income. In the second case, B claims a reduction of assessment, on the ground that the present value of his *precarious* estate, is far less than the present value of A's estate held *in perpetuity*. We have already seen that the two estates ought to pay alike, and we must conclude that, in the supposed condition of society, the present saleable value of an estate has no influence on the just assessment for taxation.

4. The same reply, I believe, would be rightly given to anyone who should claim a reduction of tax, on the ground that he had unusual reasons for desiring to save. A may say to B:—it is true that you have weighty reasons for saving a considerable portion of your income, whereas I may prudently spend the whole of mine. Taxes, you say, are more often levied on what a man actually spends; and you think that the most required by justice is, that they should be levied on what he can afford to spend. I reply, that the cost to Government of protecting your property is not affected by your rate of expenditure, any more than the cost to the storekeeper of the hardware and groceries he furnishes is affected by your rate of expenditure. Each plough, each policeman, each loaf of sugar, each soldier, costs a certain sum; and the settler to whom they are supplied must pay the cost of each.

5. As to savings, it is said, these ought not to be taxed, because they will be used as principal, and will thus furnish a revenue, which will become the subject of a tax in perpetuity; so that if they are now taxed, they will pay twice over. The reply in the colony will be, that if B saves part of his income, and invests it in another

clearing, this second clearing requires protection, and such protection must be paid for. The former tax was paid as a reimbursement of Government cost in respect to the first clearing; the latter tax will be paid as a reimbursement of Government cost in respect to the second clearing.

6. Two other questions seem capable of being decided in the same way. It is said that a just tax is not a tax which takes from every man the same proportion of his income, but a tax which imposes on every man the same degree of sacrifice. If, however, Government cost is the regulator, this notion, as applied to the colony, is false. It may be thought also, that everyone should pay according to the benefit he receives. An old man is more dependent on Government for protection than a young man is; a woman is more dependent than a man. But if the estates of the old man and of the woman are not more expensive to the Government than other estates are, no augmented tax should be paid by their owners.

7. A claim has been advanced for men who earn their incomes; a claim to pay less than is paid by men whose incomes are independent of their exertions. Now, in the colony, no such claim could be sustained. Earned incomes are generally of short duration, and are frequently precarious. I have already stated my reasons for thinking that neither shortness of duration, nor precariousness, could be admitted as a ground of reduction. And if it be thought that a man who has an independent income, is more favoured by fortune, and is, therefore, a fairer subject of taxation, I submit that such a consideration cannot for an instant be admitted, if we are to maintain the just principle, that a man shall pay for what he receives. The only way of sustaining the proposition to levy an additional tax on independent incomes, is to show that they cause an additional expense to Government.

8. There is also a question as to the practice of exempting certain persons, wholly or partially, on the ground of their inability to pay. Mr. Pitt exempted, for a time, all fathers with more than a certain number of children; Sir R. Peel exempted all persons who had less than 150*l.* a-year; Mr. Gladstone reduced the favoured class to persons having less than 100*l.* a-year, though charging a diminished rate from 100*l.* to 150*l.* a-year. Now, a settler with a large family, and a settler with small means, would require Government protection, and would cause a certain expense to Government. As regards mere *justice*, therefore, such persons have no claim to exemption. From considerations of charity, of compassion, of political expediency, this exemption may be allowed, but certainly not from consideration of justice.

9. Again, it has been proposed by some persons to vary the rate

of tax according to the amount of each man's income, so that if the owner of 100*l.* a-year paid 3*d.* in the pound, the owner of 500*l.* should pay 6*d.*, and the owner of 10,000*l.* a-year perhaps 2*s.* in the pound. This graduation is, of course, very distasteful to all wealthy men. But if we were to discuss it simply on the ground of expediency there would be a good deal to say in its favour; as, for instance, that an annual tax of 1,000*l.* to a man enjoying 10,000*l.* a-year, only cuts off certain superfluities, the want of which is merely imaginary, and the absence of which would not be felt after the first year. The scheme, however, is at once condemned as unjust, and therefore of the highest possible inexpediency, if we admit my principle—that men should pay in proportion to the cost of the protection they receive.

Suppose a number of clearings of equal extent, and such as to impose equal cost on the Government to protect them: that one settler had a single clearing, another had five, and a third ten. It might be proposed that the first settler should pay 3*d.* in the pound, the second 6*d.*, and the third 1*s.* The rich settler would say at once that he paid for what he received; that he would willingly pay for each of his clearings as much as was paid by anyone else for his, but that he could no more consent to be assessed at a higher rate for each clearing, than he could consent to pay an additional price for the commodities he purchased.

10. One other matter presents itself. I have hitherto regarded the taxes as a mere reimbursement of the current expense of governing the colony. The administration finds police and soldiers, and the central machinery for setting these in motion: the settlers find the money necessary; each one paying the cost incurred on his behalf. But suppose now, that certain public works are determined on. The colony is languishing, perhaps, for want of ready communication with the rest of the world, and it is resolved that labourers shall be employed to improve the river. Shall the funds for such a purpose be raised as the ordinary taxes are? An objection to this proceeding may be raised by the settler whose land is in progress of destruction. He may say:—your projected alterations leave my property as precarious as ever; two or three years will see the end of it, whereas four or five years will elapse before your project is completed; and even if I should be fortunate enough to save my land from being washed away long enough to allow me to enjoy some of the benefit of the amended channel, yet that must be for a very few years. But my neighbour will have the advantage in perpetuity. Certainly, he and I ought not to contribute the same share of the expense. Say that my expectation of income from my land is two years, that the expectation of B is ten years, that of C twenty years, that of D a perpetuity. Each of us ought to pay in proportion to this expecta-

tion, or, what is the same thing, in proportion to the present values of our respective expectations.

The distinction I have thus drawn, between Government expenditure for current purposes and Government expenditure for permanent improvements, may appear to be of little importance to us, among whom roads, canals, and railroads, are not executed by Government. But I have pointed out the distinction with a view to the exposure of what I regard as the fallacious proposal, to levy our ordinary taxes in proportion to the present, or capitalized value, of all incomes. I think that while such a proportionate assessment is fair for the purposes of *permanent* improvements—such as coast fortifications, or breakwaters—it is quite unfair for the purpose of the *current* expenditure of the administration.

IV.—*Another Stage of Progress. Income comes to be taken as the Test of the Cost of Protection. Temporary Incomes. Earned and Independent Incomes.*

Our fictitious colony has not at present much resemblance to an old country like England. Let us then carry it on a step further. As it grows, and clearings multiply, and farming ceases to be the altogether predominant business, it becomes impossible for individuals to make separate contracts with the authorities for protection and proportionate payment; all must now submit to the same rule of taxation. The farmers might still, if their own clearings were similarly circumstanced, pay according to the extent of their cultivated ground. But it might happen that there were different kinds of farming carried on. As in Australia, one colonist might raise wheat and green crops on a few scores or hundreds of acres; another might have flocks of sheep, ranging over a vast extent of country. The size of the settlements would cease to be a criterion of taxation; some substitute must be found.

Two plans offer themselves: first, that adopted by many of the United States in raising money for State purposes, and not for the Federal Government; the plan, I mean, of taxing all visible property: secondly, the plan of taxing all income, however produced; this income tax being either uniform or of a discriminating kind. But of the two, that would be the fairest in the eyes of the colony, which continued, as nearly as possible, to tax everyone so as to reimburse to the Government the cost of protecting him and his property.

Men accustomed to this simple rule of justice, would hardly be persuaded to depart from it in favour of any new rules, however ingenious. Finding the original plan of mere admeasurement to be now impracticable, they must, perforce, admit a substitute; but they would be apt to solve all knotty problems by a resort to the original

principle of payment in proportion to the cost of protection. If an old man pleaded for reduction of assessment, he would be answered that his caducity certainly did not lessen the cost of protecting him. If a man of temporary or precarious estate urged the same request, he would receive a similar reply. Men could not, indeed, be taxed according to the exact expense they respectively imposed upon Government; but they would be taxed on the *supposition*, that they respectively imposed a cost on Government proportionate to the income each of them enjoyed. No consideration of age, or tenure, or necessity of saving, or of savings effected, or of greater sacrifice required, would be seen to diminish the Government cost of protection, or would be, therefore, regarded as establishing a claim to reduction of assessment.

But as the colony advanced, and divers pursuits besides farming were commonly followed, various classes of persons would have to be called on by the tax-gatherer. There would be numerous stores, banks, offices, and town houses; and the owners of these, while receiving protection, would have to pay for it. In the first stage of the colony, when clearings paid according to their extent, a difficulty would have been felt in assessing the few existing town buildings, because these and the clearings would have had no common measure. But as soon as income is adopted for the assessment of lands, it is naturally adopted, also, for the assessment of town properties; and the desiderated common measure is found. It would be competent, indeed, for the citizens, or for the farmers, to allege, that in proportion to their incomes, they imposed, as a class, less cost upon Government than was imposed by the other class. But as no controversy on such a point has arisen among ourselves; as a rent in perpetuity is regarded by us as just equally taxable with interest of money in perpetuity; we may assume that rule as established; we may say, that in the colony all perpetual incomes will pay alike.

But now arises the question of incomes not in perpetuity. I considered, in the former stage of the colony, the case of a settler who had the certain expectation of having his land submerged: and I contended, that if he founded on this circumstance a claim for reduction of assessment, he would be told, that so long as his estate continued above water, it would entail on the Government an expense just as great as that entailed by any other estate of equal size; and that, therefore, his claim for reduction would be disallowed. With regard to this man, the same reasoning would prevail in the second stage of the colony. The only change is, that income has been substituted for extent of ground, as the measure of assessment; and it is now presumed that the Government cost of defending each estate and each town property, is proportionate to the income yielded. If a man now founds, on a precarious or short tenure, a claim for

reduction of tax, the previous answer will be given, viz., that the tax levied on him is only a reimbursement of the present Government cost of protecting his estate, and that this present cost is in no degree lessened by the certainty that in a few years the estate will cease to exist. A promise, however, will be given, that in case of taxation for permanent improvements, his shortness of tenure shall be allowed due weight.

Now, if a similar claim be set up in the town, on behalf of the owner of temporary or precarious houses; if it be urged that B's expectation of income is only three years, while A's expectation of the same income is perpetual; it will be answered that the Government cost of defending B's houses is just as great as the Government cost of defending A's property; that the temporary character of B's houses in nowise lessens the cost of defending them; and that, therefore, B must pay at the same rate as A.

At present, we have concerned ourselves principally with settlers in the country, though we have also considered the case of such persons as builders in the town. Both these classes have one characteristic—that their incomes are derived from industry in the use of capital—both classes are capitalists. But in a later period of the colony there may be two other classes to be dealt with; a class of persons such as mortgagees and Government annuitants, who have incomes independent of their exertions; and a class of persons such as lawyers and medical men, whose incomes are derived from professional exertions, with little use of capital.

As a representation of the independent class we may select a man whose clearing is bounded by the river, and is the only central part of the colony suitable for wharves. A considerable rent is the result; and this may have arisen either spontaneously, or from an outlay of capital; or in part spontaneously, in part from an outlay of capital: but in any case the income is independent of any present exertion on the part of the owner. I ask, then, whether this landlord ought to pay a higher rate of tax than is paid by his neighbours who earn their incomes. Still proceeding on the principle, that the cost to Government is the measure of each man's tax, what pleas shall we imagine put forth to support the proposal of a higher rate? It might be said that the independent income would be of longer duration than any earned income. We are already provided with an answer—that this is a good reason for requiring a larger payment towards permanent public improvements, but no reason for requiring a larger payment towards the current public expenditure. Another plea might be, that the man of independent means was better off than his neighbour, and could afford to pay more. The answer is again ready to our hands—that the ability of the taxpayer adds nothing to the cost imposed upon Government; and that there is no

just claim upon a rich man to pay more than others for a given quantity of protection, any more than there is a just claim upon a rich man to pay more than others for a given quantity of wheat or cloth. So long as Government cost is taken for the regulator, a man of independent means cannot be called on to pay at a higher rate than is paid by a farmer or a manufacturer.

V.—*The Colonial Illustration applied to our Case. Adam Smith's Dictum. Actual Examples of Reimbursement of Government Cost. Adam Smith's Illustration imperfect. Permanent Improvements. What Principle, if not this one? Graduation.*

The whole of my reasoning, thus far, has been founded on the proposition, that in the supposed colony everyone's taxation ought to be proportionate to the expense incurred by Government on his behalf. But as this rule is deduced from the imaginary circumstances of a fictitious colony, there remains the question, whether it is wholly or partially applicable to ourselves.

The maxim commonly adopted is that of Adam Smith, who, regarding our country as a great estate, with many co-proprietors, says that each of these may justly be called on to contribute to the expense of management, in proportion to the revenue he enjoys from the estate. Is there, in my proposition, anything inconsistent with this celebrated dictum?

Adam Smith, indeed, uses more words than those I have quoted. He says, that the subjects of a State ought to contribute "in proportion to their respective *abilities*; that is, in proportion to the *revenue* which they respectively enjoy." The word *abilities*, stripped of the interpretation given to it by the second clause of the sentence, as the revenue enjoyed, has been construed by different writers so as to make it consistent with all kinds of modifications of the simple rule, that men should pay according to the revenues they respectively enjoy. Even those who desire to charge different rates of tax according to the age of the owner and the tenure of the property, confidently appeal to this word *abilities*, neglecting the interpretation put on it by Adam Smith himself. But neither the words nor the illustration will bear such an interpretation. For if an estate is held in equal shares, A, an *old* man, with one share, will not contribute less than B, a *young* man, with one share. C, with a share for his life, will not contribute less than D, who has a share in perpetuity.

I do not pretend, however, that the justice of the case is so clear in our complex condition of society, as in that fictitious condition where each man's cost to Government can be clearly ascertained. But though it is impossible to trace out all the ramifications of the principle, it may still be true that the Government cost is the just

measure of each man's taxation. A few additional words may help to convince us that it is so.

We can hardly doubt, that when Government incurs an unusual expense for individuals, or for an aggregation of persons, those who are benefited are justly called on to reimburse the outlay. If the proprietor of a theatre can induce the authorities to allow him a number of policemen to maintain order, he should be required to pay the cost of the men. But let us take a more important instance. We hear a good deal about the defence of our colonies; and we are told, that after deducting all charges for Gibraltar, Malta, and other military or naval positions, we incur, under this head, an annual expense of some two millions sterling.

It is argued that the colonies, having now perfect freedom of trade, and independence in all local matters, ought to pay for their own defence. But how much ought they to pay us? Unquestionably, just what that defence costs us in those cases where their quarrels are purely their own, and are not fastened upon them out of spite to the mother country. So in the case of our East Indian possessions. We do actually require that their public revenues should pay for the royal regiments we supply; and the actual cost of raising, sending, and maintaining these regiments, is precisely the just limit of our demand.

Now, if it were possible to divide the public expenditure, and to say, this portion is incurred for the protection of the land, this for the protection of houses, a third portion for the protection of trades, and a fourth for the protection of professions, we might then fix a different rate of payment for each class. It might then turn out that the property of men of independent incomes caused a *greater* Government cost, and must pay more; it might turn out that this property caused *smaller* Government cost, and must pay less. Such an apportionment is, of course, impossible; and the impossibility is put in a strong light by the fact exhibited in a recent number* of the *Statistical Journal*, that of our whole public expenditure not more than one-seventh is incurred for the Civil List; and that the remaining six-sevenths are incurred for army, navy, and national debt. We cannot say that the external defence of the country, and the national debt, which was principally contracted for warlike purposes, appertain to one class more than another.

We are thus driven to accept Adam Smith's illustration, and to regard the whole country as one vast property, in which each of us has one or more shares. But it seems to me none the less true, that a reimbursement of Government cost is still the just ground and measure of each man's taxation. Just as A, who has one share in

* *Statistical Journal*, vol. xxiv, p. 419.

an estate, pays a certain sum towards the expenses of management; B, with two shares, pays twice as much; C, with ten shares, ten times as much: so A, with 1,000*l.* a-year, accruing under the protection of Government, pays a certain sum towards the public expenditure; B, with 2,000*l.* a-year of the same class of income, pays twice as much; C, with 10,000*l.* a-year, pays ten times as much.

But it must be confessed, that Adam Smith's comparison of the country to an estate, furnishes only an imperfect illustration of the question at issue. The co-proprietors of the estate are all supposed to divide the net income of it, without any exertion to produce the income; the persons designated as A, B, and C, are also supposed to be landlords, or mortgagees, or annuitants. So far the parallelism is satisfactory. But then there are other persons deriving an income from the estate—farmers who pay the rents divided by A, B, and C; these persons pay no part of the expenses of management. There are persons also in the country who earn their incomes—farmers, manufacturers, professional men; no one proposes that these persons shall be altogether excused from contributing to the taxes by which the expenses of Government management are defrayed. We must search elsewhere for the means of determining what share of those expenses the different classes ought to pay.

There is one kind of Government expenditure which is incurred principally for the benefit of certain classes. I have already pointed out, in one stage of the colony, that if the administration undertook to improve the navigation of the river, old men, and others having a short tenure in their property, might fairly demand at least a partial exemption from the taxes for executing the works, on the ground that it would be only for a short time, if at all, that they should benefit by the improvements. Now, let us conceive, that thirty years ago our Government had resolved to construct a system of railways for this kingdom, and had determined to do the work so gradually as to be able to raise the necessary funds wholly by taxation. Wild as is the supposition, it is conceivable; since an income tax of 1*s.* in the pound, from 1830 (the date of the opening of the Liverpool and Manchester line) to the present year, would have been sufficient. But an old man, whose income was not to descend to his family, or a professional man with his precarious income, might reasonably have objected, in 1830, to pay to this railroad fund at the same rate as landlords, fundholders, and other persons of permanent incomes. The old man might say, that before the first railroad would be opened he should be no more; the professional man might say, that though he might hope to see a great many of the lines completed, yet the benefit to him would be small compared with that conferred on persons whose property, transmissible to sons and grandsons, would be greatly increased in value by the

improved communications. In such a case the Government cost is not incurred equally for all portions of the taxpayers, and therefore the rate of taxation ought to vary.

On this principle, of proportion between Government cost and individual taxation, I have not much more to say, beyond asking the question,—if this be not the foundation of just taxation, what is the foundation? and what other defence have we against graduation?

Most of the different proposals I have mentioned—such as that of reducing the rate for old men, or the rate for owners under a short tenure,—are grounded on the notion that men should pay in proportion to their means; taking means to signify, not income, but the present value of the expectation of income. Two men, equally well off, are to pay equal taxes. Now, this might pass under what is called paternal Government, but it is not justice. Barbadoes is a flourishing colony; Jamaica is an unprosperous one: say, that each asks for the services of an infantry regiment: we might, out of *compassion*, excuse Jamaica part of the cost, but *justice* would not allow us to charge Barbadoes more than the cost. So at home, compassion and political expediency may lead us to excuse persons of small incomes part of the taxes necessary to reimburse the cost of protecting them; but justice will not allow us to demand from men of great wealth a larger proportion of their income than we demand from persons of competent means. Just as, in the first stage of the colony, B, with ten clearings, would only pay ten times as much as A with one similar clearing; so at home, B, with 100,000*l.* a-year, must pay no more than 5 per cent., so long as A, with 1,000*l.* a-year pays 5 per cent. Yet I think it is only on this principle of proportion between Government cost and taxation that this uniformity of rate can be safely maintained. “Justice, not expediency,” is the watchword of the defence against graduation.

The very name, graduation, stinks in the nostrils of wealthy men; and they call it confiscation and socialism. Yet confiscation is sometimes just; socialism may have an element of truth in its composition. Why is graduation an indefensible confiscation? Why is graduation an indefensible part of socialism? Because, I reply, graduation is unjust; because graduation is a filching from rich men a payment for that which they do not receive; because it is a demand on rich men to pay a shilling for the loaf which men of moderate means are to get for ninepence. When I speak of graduation henceforth I will qualify it, not as confiscation or socialism, but as injustice. Yet I cannot derive this injustice from any principle but this—that each tax-payer ought to be assessed according to the cost incurred by Government in his defence.

I have enlarged to this extent on the principle in question, because all my argumentation is founded upon it. Among ourselves,

as in the fictitious colony, Government ought, as it seems to me, to levy, on each man, a tax such as to reimburse the cost of protecting that man from foreign and domestic enemies.

VI.—*Further application to our own Case. Some part of Government Expenditure is not for Protection. Permanent Improvements. Age of Tax-payer. Corollary, that uniformity from year to year is unnecessary. Tenure, &c., &c.*

I have already inquired how far, in an early stage of my fictitious colony, it would have seemed right to vary the rate of taxation according to the age of the subject, his tenure, the real sacrifice imposed on him, and other circumstances. I have stated my opinion, that in that state of society, no reduction would have been allowed on such grounds. But it remains to be seen whether the same unvarying rule is applicable to ourselves.

It must be remembered, that I am speaking here of taxation levied for the present expenses of Government; of taxation levied this year to furnish the ordinary expenses of this year; and especially that very large part of the year's expenses, which is incurred for mere protection, internal as well as external. I will afterwards show why I regard a small part of the annual expenditure in a different light, as what we may call superfluous; and I will at the same time give my reasons for thinking that the reduction of assessment which poor men may fairly claim in respect to this small superfluous expenditure, would be best made by deducting 100*l.* a-year from all assessments, instead of the present plan of assessing in full all incomes above 150*l.* a-year, and nearly in full, all incomes above 100*l.* a-year.

Now, as to taxation levied for the execution of permanent improvements, I repeat that men of considerable age, and men possessing only a short or precarious tenure in their incomes, would have a fair claim for reduction in case of such taxes. At the present moment we are busy with a system of fortifications; and these will not be so complete for many years as to be of any great advantage to us, while they will, in the long run, add much to the security of the property of the country. The course adopted of borrowing a large part of the necessary funds, properly divides the cost among a succession of people. If the whole funds had been raised by present taxation, it would, I think, have been unjust to impose an uniform rate on all persons, of whatever age or circumstances.

But to return to ordinary taxation for current public expenditure.

1. Ought an elderly man to pay less than a young man? In the colony, as I have shown, no such claim would be allowed. In the most simple stage, when each settler paid according to the admeasurement of his clearing, even the oldest man would not have

ventured on such a claim, because it would be manifest that his property would cost the authorities at least as much for protection as the young man's property would cost. When, from the necessities of a more complex state of society, income, instead of extent of land, came to be the measure, there would be nothing in the change to give the old man a claim for reduction, since the Government would still require everyone to pay for the protection he receives; and the cost of that protection would now be assessed, not according to the extent of the land, but according to the income it yielded. But this latter arrangement is just that under which we live. Each of us *ought* to pay taxes to such an amount as to reimburse the expense incurred by Government on his behalf, but the Government *cannot* render to each of us an account of the expense incurred on his behalf; it is agreed, therefore, that each shall pay according to his income. It is not disputed that this is a fair approximation to the truth, for men of the same age, and having the same tenure in their property. It is agreed that if two such men have 1,000*l.* a-year, and 10,000*l.* a-year respectively, the latter ought to pay ten times as much as the former. But if A and B have each 1,000*l.* a-year, A being a young man, and B an old man, the only pretence that can be set up for reducing B's assessment on account of his age, must be that B's age renders his property less costly to defend, a pretence that cannot be maintained.

If we take Adam Smith's illustration, and regard the country as a great estate, of which the young man and the old man are two of the joint proprietors, we arrive at the same result. Before any division of income from an estate, the whole expenses of repairs, insurance, and agency, must be deducted; and supposing these to amount, in any year, to 10 per cent. on the gross income, the old man, as well as the young one, would have his income reduced by 10 per cent. In the same way, each of us of whatever age, contributes under the income tax, in proportion to his ability, that is, in proportion to the revenue he receives.

I will just point out here, what is an obvious corollary of this proposition. It is generally said, in accordance with Mr. Warburton's opinion, that to make an indiscriminating tax fair, it ought to be levied at one uniform rate from year to year; and that to levy 6*d.* one year, 9*d.* a second year, and 1*s.* the third year, destroys the compensation which constitutes the fairness. But if the arguments and illustrations I have adduced, prove anything, they prove that this uniformity of rate from year to year is not necessary for fairness.

Everyone is bound to pay each year, the Government cost incurred in his behalf, during the year, just as every joint proprietor of an estate, is bound to pay each year, the current expenses of management during that year. The expenses of our Government

have risen even in times of peace, from fifty, up to sixty-five millions, just as the expense of managing an estate might rise in the course of years, from 10 up to 15 per cent. If the greater expense is really incurred for current management, and not for permanent improvements, the proprietors or tax-payers ought to defray the whole of it in the year; and the high rate is a misfortune which ought not to be thrown on posterity, or divided unequally among the present sufferers. I will point out, before I have done, what was the peculiarity of Mr. Warburton's reasoning, which led him to believe in the necessity of an uniformity of rate from year to year.

2. I conclude, then, that among ourselves, as in the colony, the age of the tax-payer ought not to be considered in fixing his assessment. I inquire now, whether a man's tenure of his property is in the same category. I have expressed my opinion, that in the colony, such was the case: that if a man had a clearing which would certainly be swept away in a few years, and might be swept away the next year, that would be no reason, in point of justice, for excusing him from paying this year, for the goods he bought or for the Government protection he received. Suppose, among ourselves, a sort of tontine, in which one class of proprietors had shares for five years; another class for ten years; a third for twenty years; a fourth in perpetuity; it certainly would not be expected by the five years' proprietors, that they should pay a smaller proportion of the current expenses, than was paid by the others, although as to permanent improvements, such a reduction might fairly be demanded. Nor can co-proprietors in the great estate of the nation, be permitted to pay different rates for the defraying of the current expenses of the State, on the ground that the incomes in respect of which they pay, are held on tenures of unequal length.

3. I inquired before as to the validity of other grounds on which it might have been proposed in the colony, to reduce the rate: as to the propriety of fixing the rate according to the capitalized value of the income; of taxing a man according to the expenditure he could afford; of excusing savings from taxation; of requiring from all persons, not the same proportion in money, but the same real sacrifice. It is quite unnecessary for me to go through these again one by one, because they may all be determined by the one principle, that everyone should pay in the year for what he receives during the year: and if, as I contend, that principle is true as to this country, as perfectly as it is true of the fictitious colony, the solution of all these problems is easy and certain. Once satisfied as to the principle, we must come to the conclusion that there is no validity in the grounds alleged for reducing the rate of taxation, when, as is commonly the case, the proceeds are to be applied to the current

expenses of administration, and not to permanent improvements, such as railroads or fortifications.

VII.—*Application of the Doctrine to the case of a Physician as compared with a Landowner.*

But after all these reasonings on the subject, we naturally inquire how this uniform rate works in actual life. Abstract argumentation is sometimes inevitable, but the concrete, after all, is the necessary test of truth.

A physician might say to me:—Here am I getting 1,000*l.* a-year; but I am past middle life, and I cannot hope to enjoy it long: whereas my neighbour who is a landowner, not only has the enjoyment of his 1,000*l.* a-year for his own life, but will have it as a provision for his children. Surely it is not just that we should pay alike.

In reply, we must concede at once, that the landowner is far better off than the physician with the same income. But when this superiority of fortune is alleged as the ground for imposing a heavier rate of taxation, there is, I believe, a tacit appeal to a false and dangerous sentiment. If we were to carry out a favourite scheme of some of our friends, and in order to get rid of indirect taxation, we were to levy a direct impost on all incomes whatsoever, the same comparison which is now made by the physician between himself and the landowner, would then be made by the artisan between himself and his employer: the artisan would think it hard that there should be levied upon him, a tax which would easily be paid by his employer, who, as the artisan sees, is always well dressed, well housed, and in the enjoyment of many of the superfluities, probably of many of the luxuries of life. This is the old cry, which always has been heard, and I suppose always will be heard, of the poor against the rich. Let the poor man have his loaf for 5*d.*, and let the rich man make up the difference to the bakers; let the poor enjoy the protection of Government for nothing, and let the rich supply the deficient revenue.

But is it really the business of Government to redress the inequalities of fortune? The notion that it is such is one that to us, as Englishmen, is altogether abhorrent. We are convinced that to mulct a man because he is rich, to employ the power of Government in filling up the gaps between class and class, would result, not in raising the proletariat to competency, but in dragging the rich down to the level of the proletariat. We have, indeed, found by fortunate experience, that we can safely use the intervention of authority to save destitute individuals from absolute want of the necessities of life; but that has not shaken our conviction, that men are best left to make or mar their own fortunes, and that, in dealing with all classes, justice is the true guide of Government.

Our physician would, of course, disclaim any propensity to socialistic doctrine; and would assert that his suit was for justice alone. He would grant that he ought to repay the expenses incurred by Government on his behalf; and also that the landowner ought to follow the same rule. But he might still urge those pleas which I have already considered; and I should then have to show him that the age of the owner, the shortness and precariousness of the income, the power of prudent expenditure, the savings effected, the real sacrifice required, had none of them anything to do with the cost of Government for protecting him in the exercise of his profession; and further, that if we regard the country as a great estate, of which he is one of the many proprietors, these pleas would avail him just as little. The Government expenses during the year must be defrayed by those for whom they are incurred; the cost of managing the estate must be paid before any division of income takes place.

VIII.—*Points raised in the House of Commons' Report. Settled Property. Proposed Reduction of one-twelfth on Assessment of Land. Clerical Incomes. Houses. Mines and Quarries. Foreign Funds. Allowance for Life Insurance. Reduction on Trading Assessments under Clause 133.*

Having thus stated what I conceive to be the principles on which taxes ought to be levied, I will mention as briefly as possible, some applications of them which have occurred to me in reading the House of Commons' Report.

First, as to land and settled property generally. It has been contended that a tenant for life ought to be regarded as a short annuitant, and should be placed in the category of those from whom a reduced rate ought to be demanded. The question whether this ought to be so is of less interest to me, because I am convinced that no incomes, except those annuities which are purchased for a sum of money, and which, therefore, consist in part of a return of the principal invested, ought to have any reduction of rate. But even if the contrary opinion were to prevail, I should still hold that life tenants ought to have no reduction. Money, as well as land, is generally settled, in order to prevent the dissipation of the principal, and to secure the transmission of it to the children of the life tenant: so that the law does, rather clumsily, what a prudent father does without the law. The life tenant, therefore, is without the motive for saving, which is imposed on him whose income ceases with his health or life. The cases, constantly recurring, of land settled on the eldest son, are, no doubt, different. But the practice of transmitting the landed estate to the eldest son, by settlement or by intestacy, is altogether artificial, and was unknown to ancient Greece and Rome; having arisen in feudal times, and being still

kept up with great prudence, for the purpose of sustaining the social and political influence of the aristocracy. The practice is one with which I find no fault, because I believe that in our present condition, the subsistence of a territorial aristocracy is necessary to the security of our free institutions. But although the hereditary transmission of land and the custom of primogeniture are highly important to the public weal, yet the first and direct advantage is the one reaped by the aristocracy itself; and it would be a strange concession if we were to allow those who have continued and carried out this custom of primogeniture for their own benefit, to obtain also by its means, a remission of taxes.

Another claim set up for the landed interest is of less importance, and is founded on very different considerations. In Mr. Hubbard's scheme, submitted to the Committee, the rent of land is to be assessed at only eleven-twelfths of its amount; the other twelfth being allowed for inevitable out-goings. Unquestionably, it is the net, and not the gross income which ought to be taxed. But against the out-goings of one-twelfth, must be put the advantage gained by the landlord, from the fact stated to the Committee, that farmers' profits are too lightly assessed. Sir R. Peel reduced the assessment formerly made, and it is stated that, in cases of compensation, farmers estimate their profits at a much higher rate than that at which they are assessed to the income tax. But the lower the tax, the higher the rent which the farmer can afford to pay; and, therefore, this advantage may very well counterbalance the alleged taxation on out-goings. An allowance has to be made also for the fact, that, as no tax is levied on incomes under 100*l.* a-year, no farmer pays tax unless his rental reaches 200*l.* a-year, so that in some parts of the country little tax is paid by farmers. If, as I assume, the income tax falls, not very indirectly, on the rent, it is in the power of the landlord, by splitting his estate into moderate holdings, say of 200 acres or less, to put the tax into his own pocket. This should be remembered when it is proposed to lower the landlords' assessments.

Again, a considerable amount of discussion took place in the Committee, as to clerical incomes. The first great question was, whether clergymen who, of course, have their tithes only for life, ought to pay at a full or a reduced rate. If a clergyman has his tithes only for life, why should he pay more than a Government officer, or a trader, who has his income for life? On the other hand, it was contended that Government could not be robbed of its rights; and that land must pay the same tax in whatever hands the usufruct might be. For myself, I cut the discussion short, by saying that the Government cost of protection is the same, whether the usufruct is in lay or clerical hands; and that justice, therefore, requires the same payment.

One alteration, however, does seem necessary. A good deal of college and ecclesiastical land is let on the improvident custom of fines; and, as if to punish the corporations guilty of this imprudence, the authorities levy an aggravated tax. First, there is required from the recipient a statement of all fines received, and on the amount of these the full tax is levied. Next, the tax-gatherer goes to the land itself, and requires from the tenant the full tax on the estimated rental, the landlord having, of course, sooner or later, to refund the tax to the tenant. This reduplication of impost is quite indefensible.

Houses, again, are unfairly assessed. Mr. Hubbard, after careful inquiry, proposed that only five-sixths of the rack-rent should be taxed; the other sixth being left as a fund to cover insurance, repairs, and ultimate renewal. The evidence given by several experienced witnesses pretty well supports this estimate, regarded as an average. But it appears, that such an average is, in this case, unnecessary and unjust. A well-built villa of 100*l.* or 200*l.* a year, causes very little cost to the owner, when it is once let on lease to a respectable tenant: the rent, therefore, is nearly a net income. A small house, at 3*s.* a-week, with constant change of occupancy, and careless tenants, will often yield as little as 2*s.* a-week to the landlord. The allowance of one-sixth, which would be excessive for the villa, would be far too little for the cottage. Add to this, that in large towns, where the compounding of rates is a common practice, and a very useful one, the rack-rent includes all the local taxes, amounting sometimes, at the full rate, to 6*s.* or 7*s.* in the pound; and that it is on this rack-rent, including rates as well as repairs, insurance, and renewal-fund, that the income tax is levied. There are two obvious modes of correcting this injustice; the one is, to put landlords into Schedule D as traders; the other, a more simple one, is, after deducting all local taxes, to make an abatement in an inverse ratio to the amount of rent; giving the greatest percentage of abatement to the lowest rent. A differential scale could easily be constructed.

Mines and quarries also are treated very roughly. It is astonishing to find one of the witnesses proposing, as a piece of justice not to be hoped for, that the proprietors should be allowed to pay tax on the net income they receive. At present, it seems, a sum of money is spent in Cornwall in opening a mine: for a time there is no return; as soon as the sales of ore amount to something beyond the present working expenses, that excess is reckoned as profit, and is taxed to the full amount, without any allowance for past losses, or for a replacement of the capital invested. When the mine is worked out the capital is gone; and if the speculation has been successful enough to replace it out of the dividends, the owners have paid income tax

on the whole of the replaced capital, as well as on the net income produced.

The holders of foreign funds seem, on the general principle of justice I before laid down, to be entitled to ask relief. The protection which a holder of French *Rentes* receives in respect of that property, comes principally from the French Government; and our Government cannot fairly claim a payment for expenses which it has not incurred. Our own practice, too, condemns us; for the French holder of Consols pays income tax here on his dividends; and if the French Government were to levy an income tax, and to follow our precedent, the unfortunate French holder of Consols would pay the full tax twice; once in London and once in Paris.

One other matter was greatly discussed in committee: the treatment of purchased terminable annuities. But before saying anything on that topic, I will just mention two cases of actual exemption, and the evidence given upon them.

First, as to life insurance. Some years ago, the alleged unfairness of fully taxing temporary or precarious incomes, was much discussed. As the necessity of saving from such incomes was greatly insisted on, an Act was passed, exempting persons from tax on that part of their incomes, up to one-sixth of the whole, which they paid as premiums on life insurance; and about four years ago the same privilege was extended to persons insuring with legally authorized friendly societies. The claims under these two heads, in Schedules A, B, and C, were no less than 22,555 in one year; and the amount of tax returned was nearly 25,000*l.*, or rather more than 1*l.* for each claim, on the average. If the principle of justice for which I am contending were alone to regulate the tax, this exemption could not be maintained; because Government had incurred the same expense in protecting the incomes of the insurers, as in protecting the incomes of their less provident neighbours. But the practice of life insurance is so very valuable a one, and is of such national importance, that I cannot regret the concession on that score, of the moderate sum of 25,000*l.*, to the Schedules I have mentioned.

The second exemption is of a very different kind. We all know that traders are required to make their returns each year on the average of three previous years' profits. But by the 133rd section of the Act it is provided, that if the profits of the past year are less than the average profits of the three preceding years, the trader shall pay only on the last year's profits; so that if in a variable business, my profits for the last three years had been 9,000*l.*, or 3,000*l.* a-year, and my profits for the last year had been only 100*l.*, I should have to pay on only 100*l.* Mr. Hubbard, in his "Observations," gives an example of the tax actually paid by a mercantile house during ten years; and it appears, that while the triennial average was nearly

8,000*l.* a-year, the assessment was only 4,000*l.* a-year,—just half of what fundholders and landowners would pay if enjoying the same income. No doubt, there are to be found traders who have an eye to this clause, in making up their balance sheet. The exemption appears to me quite indefensible.

IX.—*Terminable Annuities. Charge for Life on an Estate. Purchased Terminable Annuities. The Dead Weight. The Principle of Terminable Annuities. Cases of avowed Evasion. Lands Improvement Company. Mr. Newmarch's Cases. Mr. Gladstone's defence of Present Practice. Improvidence of that Practice. Case of Life Annuities not so plain. Supposed Case of Two Sisters.*

I now come to the topic of terminable annuities purchased for a sum of money. In the House of Commons' Committee, vast discussion and wonderful ingenuity were exercised on this topic. Witnesses were harassed with captious questions and insoluble problems. Yet, it seems to me, after reading the evidence at my leisure, that no new light was elicited; that the purchased annuity is clearly divisible into interest and a replacement of capital; and that, so long as landlords, fundholders, and traders are taxed, on income only, and not on principal, so long ought annuitants to be treated in the same way. The only objection fairly sustained by the evidence, related to life annuities, bought with principal but not with capital, and bought with the intention that the whole annuity should be spent as it accrued. As to the taxation of such life annuities, there is room for conflicting opinions.

It is essential to keep carefully in mind, that we are here concerned with purchased incomes only. It is natural enough to apply the name annuity to every income payable annually, or at shorter periods—fractions of a year. We speak of an annuity payable by a landowner to his mother or sister.

Some members of the Committee inquired curiously, whether, in case of a discriminating tax, a sister enjoying an annuity charged on the rents of an estate, ought to pay the full rate, or the reduced rate of tax. The general, but not universal answer was, that she should pay the full rate, because the annuity was merely a share of rent, and the Government could not be debarred, by any private arrangement, of its claim to a full rate upon the rent of land. Those who agree with me, that the tax is merely a payment for protection, will say, that as the creation of the annuity in nowise relieved the Government of the cost of protecting the land, so it could not relieve the owner or owners of the land from the obligation of paying tax just as if no annuity existed. But the real question seems to me to lie between the brother and sister; and to be, whether, after the brother

had paid the full tax on the whole rental, he was entitled to stop the full rate from his sister. Dr. Farr and the Actuaries, who contend for a capitalization of income, would say, I presume, that he ought to stop only the reduced rate; and that, as reversioner, he ought to sit down with the loss of the difference.

At present, however, we are concerned only with annuities purchased for a sum of money. Mr. Hubbard brought before the Committee a well-known example of Government annuities. When the income tax was imposed, in 1842, the Government was paying, in long annuities, an annual sum of 1,300,000*l.*; the payment was to cease in 1860; the principal represented was 17,500,000*l.*; the income tax being imposed on the whole of the annuity has since been paid to the full; the result being, that between 1842 and 1860 there was paid, in respect of these annuities, no less than 600,000*l.* beyond what would have been paid, if the same capital had been invested in Consols. This sum of 600,000*l.* we must say, I fear, was unjustly appropriated by the Government for the public service. No one will suppose that Sir R. Peel, when he constructed his budget in 1842, intended to act unjustly; nor can his successors be much blamed for following in his steps, while they can shelter themselves under the plea that many men of distinguished ability deny the alleged injustice.

The principle of terminable annuities is so well known, that it is almost superfluous to advert to it. Say, first, that I borrow 10,000*l.* and undertake to repay it by instalments of 1,000*l.*, with 5 per cent. interest on all capital remaining unpaid. The first year I pay 1,500*l.*, the second year 1,450*l.*, the last year 1,050*l.* But it is agreed, on borrowing a second 10,000*l.*, that instead of these diminishing amounts, I shall pay an uniform sum each year; a sum, viz., somewhere between 1,050*l.* and 1,500*l.* Now, while the original agreement was in force, the sum I paid in the first year was 1,000*l.* of it principal, and 500*l.* interest; in the last year the principal paid was still 1,000*l.*, the interest being only 50*l.* And there would be no more pretence for taxing each payment of 1,000*l.* principal, than there would be for taxing the whole 10,000*l.* principal, if it had been repaid in a lump at the end of the ten years. But under the second agreement, when I pay an uniform sum every year, the principal is just as much repaid during the ten years as it was under the first agreement. At the end of the tenth year, the lender has got back his 10,000*l.* principal, with 5 per cent. interest on the principal remaining unpaid each year. Yet, in this second case, the Government levies the tax on everything received, that is, on principal as well as interest.

The attention of the Committee was directed to the Drainage Act, in illustration of the principle in question; and several cases

were adduced in which an avowed evasion of the Act exhibited the unfairness of its application generally. The first case was that of the Lands Improvement Company, which was constituted under an Act of Parliament, in 1853. The managers, finding it advantageous for the borrowers to refund their loans by uniform payments during twenty-five years—that is, by a terminable annuity,—and being advised that, notwithstanding a clause in the original Act, they would not, without litigation, escape a tax on the whole annuity, resolved to apply to Parliament for an explicit exemption from tax on that part of the annual payment which was a refunding of principal advanced; and they succeeded in their application. Mr. Napier furnished the following particulars:—

“ At that time we were lending money at $4\frac{1}{2}$ per cent. of simple interest, or 6*l.* 14*s.* per cent. of periodical payment; 6*l.* 14*s.* per cent. for twenty-five years, paid back our capital, with interest at $4\frac{1}{2}$ per cent. If the 7*d.* in the pound was deducted from the whole half-yearly payment of 33*l.* 10*s.* 5*d.* upon the 1,000*l.* for twenty-five years, the entire deduction, at the end of twenty-five years, would be 48*l.* 18*s.* If the income tax were only deducted upon that which we contended was right, namely, upon the interest of our money, it would be 19*l.* 14*s.* 4*d.*; so that, in fact, we were to be taxed at the rate of nearly 3 per cent. upon our capital, and instead of getting back our 1,000*l.*, we got back 1,000*l.* less 30*l.* Such a state of things, of course, would have made it impossible to have continued our business.”

Mr. Napier might have added, that when the income tax was doubled, the company's loss would have been 6 per cent. on its capital. However, in 1855, an Act was obtained exempting the company from tax on capital, and since then the assessment has been justly made on interest alone.

Another illustration was furnished by Mr. Newmarch, who showed how a lender might, without the shelter of a special Act, evade payment of tax on the principal refunded in an annuity. Mr. Newmarch gave two examples. The first case was a loan of 30,000*l.*, at 5 per cent., secured upon a life estate, for which loan the borrower was to pay an annuity, for seven years, of 5,642*l.* 14*s.* 6*d.* When the money was advanced, the lender divided the stipulated annual payments into three portions: one for repayment of principal, a second for payment of premiums on life insurance, the third for payment of interest. By means of this clear separation of the elements of the annual payment, the tax-gatherer was compelled to limit his assessment to the interest, amounting during the seven years to 5,864*l.* 1*s.* 3*d.*: in the absence of such separation of the elements he would have assessed the whole amount paid, which

during the seven years was nearly 40,000*l.*, or almost seven times the actual assessment.

Mr. Newmarch supplied another schedule, showing an equally successful evasion of this unjust impost. In this case, the sum of 5,000*l.* was advanced on a mortgage of county rates; and the repayment was covenanted to be made, not by equal annual instalments, but by equal annual payments of 250*l.* principal, and 5 per cent. interest on principal owing. This was not an annuity in form, though it was such substantially.

All these cases are founded on the maxim, that principal ought not to be taxed in annuities, so long as it is not taxed in land, mortgages, and funds. It is much to be desired that that should be done for all, by law—which is now done for a few, by astute but just evasion.

Mr. Gladstone, by questions which he put, suggested an attempted defence of the present practice. He mentioned certain Government annuities created in 1855 for thirty years; and asked whether, as in that year there was an income tax of 1*s.* 4*d.* in the pound, the purchasers of those annuities did not take the tax into account in the price they paid. Mr. Hubbard replied, that the tax was to have ceased in 1860; and that in the five or six earliest years of the annuity, the principal repaid, and the consequent tax upon principal, would be very trifling. But even if it were otherwise, this would be no mitigation of the injustice committed towards the holders of the annuities which expired in 1860, and which had been purchased so long back as 1823; a period too near the conclusion of peace and the then passionate repeal of the hated income tax, to allow any thought of the renewal of such a tax. It is true, generally, that every formalized injustice is partly corrected by the efforts of the sufferers; but it does not cease to be an injustice.

But there is improvidence as well as injustice in this tax upon capital, and indeed there is improvidence in every money transaction which is tainted with unfairness. In the case of the loan of 1855, Mr. Hubbard contended that that part of it which was borrowed on terminable annuities, was a very extravagant bargain, as the interest to be paid, the actual price of consols being considered, was no less than 5 per cent. Now as terminable annuities are in practice the only available sinking fund, and as it is highly desirable that we should be constantly extinguishing a portion of the capital of the national debt, it is unfortunate that the error of Sir R. Peel, uncorrected at present by his successors, should have made it impossible to borrow on terminable annuities at a low rate. It would seem to be the true policy of the treasury, to take measures for giving to terminable annuities such facilities of transfer, and such clear fairness of taxation, as to secure to them something like the same currency

with Consols. So far is this from being the case, that as Mr. Hubbard informs us, the Dead-Weight was at one time unsaleable.

I have already said, that the topic of *life annuities* purchased with money, is more open to discussion. It is true, no doubt, that the periodical payments may be separated into interest and repayment of principal; and that to tax the whole annuity, involves a tax upon the original purchase money. On the other hand, such annuities are generally bought as incomes to be spent. Now, under the system of taxation, direct or indirect, on expenditure, a system which preceded the income tax, and which will, no doubt, replace it whenever it ceases, the holders of life annuities had formerly, and will again have, to pay on the whole of their income; and as they had resolved to turn principal into income and to leave no fortune behind them, the purchase of life annuities is merely the accidental form of carrying out their resolution. The case is the same as if they had reckoned how long they had to live, and had spent a portion of their principal every year; and under this arrangement, the whole of their principal would have had to pay taxes on expenditure, if no income tax had been imposed. The holders of these annuities therefore, so far as they spend the whole of their incomes, are no poorer in consequence of the recent substitution of an income tax in place of expenditure taxes. Their annuities in short, were bought with principal but not with capital: with stock set apart for self-maintenance, not with stock set apart to be used in business.

The circumstances are quite different when the bank buys annuities for a term of years. The price here consists of an advance of *capital*, and in the absence of an income tax, the income annually received by the bank would not pay expenditure taxes, because that part of it which replaces the purchase money is capital, and is set apart to be again employed in business. I repeat, therefore, that the case of life annuities is open to dispute, if, as I assume, they are generally bought with the intention that they should be used as self-maintenance.

In the course of Mr. Newmarch's examination, Mr. Gladstone put to him a highly ingenious problem, to show that a reduction of the tax on life annuities would be unfair. He assumed that a gentleman had twin daughters: that he provided for the one by buying for her an annuity of 1,000*l.* at the National Debt Office, and for the other by a charge on his estate of 1,000*l.* a-year. Under the varying rate, the purchased annuity would pay a reduced tax; the charge on the estate would pay the full tax. Yet both the incomes are for life only, and both, in the absence of an income tax, would be worth the same sum in the market.

The Government, no doubt, as in a former case I adduced, ought to require the full tax from the possessor of the estate, because the

protection afforded ought to be paid for. I think also, that the possessor of the estate is justly entitled to deduct the full tax from the annual payment, because the sister is virtually an owner for the time being. But I have already expressed my doubt whether the sister who had a Government annuity, ought not on other grounds to pay the full tax.

But if we suppose that the two annuities were created on the lives of the sisters, in favour of the Bank of England and for a term of years, then the problem regains its significance. The solution seems to be, that if the creator of the annuities chooses to secure one on a property, the protection of which is more expensive to Government than is the protection of the other, the annuity secured on the expensive property must suffer accordingly. The father ought to buy a somewhat larger annuity to cover the difference.

This problem of the two sisters, was afterwards taken up by Mr. Lowe, and much of the time of the Committee was occupied with it, without any perceptible addition to the truth discovered.

X.—*Strictures on Distinguished Opinions. Mr. Warburton's Uniformity from Year to Year not really necessary. Purchased Annuities. 2. Dr. Farr's and the Actuaries' supposed Redemption as Illustration. Ought to Capitalize the Tax as well as the Income. 3. Mr. Mill's—that should not Tax Savings. Possible Result. But Savings are not made by Persons of precarious Incomes generally, because these are insufficient. A Surplus is necessary before People can save.*

It remains for me to make a few remarks upon the opinions propounded on this intricate topic, by several of the most distinguished statisticians.

1. I have already referred to the evidence given by Mr. Warburton, and reported in June, 1852, to the House of Commons. It has been commonly stated, and as I find, accurately stated, that Mr. Warburton regarded it as an essential feature of a just income tax, that the rate should be uniform from year to year. The actual tax, if 7*d.* one year, 9*d.* another year, and 1*s.* 4*d.* a third year, was, according to him, utterly unfair. If this opinion be true, the tax is condemned past redemption; since it would be found impossible to levy an unvarying tax to supply the variable needs of war, of peace, and of armed neutrality. The peculiar excellence of an income tax is its elasticity, and its consequent fitness to fill up an occasional gap in the exchequer; thus preventing the necessity of disturbing the relations of commerce by temporary augmentations of custom duties. Make the tax uniform from year to year, and you destroy the usefulness it possesses.

But this uniformity, as I have already noticed, is, on my principle, unnecessary for the demands of justice. Where the proceeds are to be applied to the current expenses of the year, and not to the execution of permanent improvements, I see no reason why the rate should not vary, as the demands of the treasury vary. Government lays out a certain sum this year in protecting the nation's great estate; that sum should be raised during the year: a smaller sum will be laid out next year; the smaller sum should be raised.

This difference of opinion, as to the necessity of uniformity in the annual rate, goes to the root of the matter. If such a necessity exists, an income tax always has been, and perhaps always will be, entirely unjust.

In another respect, Mr. Warburton seems to me mistaken; I mean in allowing no distinction between purchased terminable annuities and incomes from other sources. To him an income is an income, and must be taxed while it lasts.

2. As regards Dr. Farr and the Actuaries he represents, I have already given my reasons for dissenting from their views. These are clearly stated by Mr. Hume in his proposed report to the House of Commons, in June, 1852.

	Assessed Value.
	£
" A has 1,000 <i>l.</i> a-year in long annuities	6,875
" B " in Consols, at par.....	33,333
" C " from land, worth 30 years' purchase	30,000
" D " from land, during his life.....	16,667
" E has the reversion of rents of 1,000 <i>l.</i> a-year after the death of D	16,666
" F has houses returning in current rents 1,000 <i>l.</i> a-year.....	16,000

" These values serve to represent the sums for which such annuities, rents, securities, and estates, which are all designated property, would sell; and they also express the extent of loss against which the holders are protected by the laws and institutions of the country. Your Committee repeat, that they know of no more accurate indication of the ability of the respective proprietors to pay the tax, than is furnished by the values of their respective properties."

The first item—the income from purchased terminable annuities—has been already fully discussed. The reasoning as to the other items may be tested by a supposition of Dr. Booth's paper, recently published in the *Statistical Journal*.

Let us imagine that Government proposed to the owners of these various incomes, to redeem their income tax; that tax having been made permanent at 1*s.* in the pound. What sum would each person pay? The owner in perpetuity of the land would pay thirty years' purchase; the holder of Consols thirty-three and one-third years'

purchase; the house owner sixteen years' purchase. The supposed reversioner of an estate would properly pay his sixteen and three-fifth years' purchase, in consideration of having his estate free of income tax when he should get possession at a future day. Such a composition would be perfectly just, on the supposition of an uniform annual rate in perpetuity; and uniformity in the annual rate would be necessary to make the composition just. Mr. Hume's schedule, excluding the long annuity case, which stands on ground of its own, would be a safe guide to the authorities who arranged the composition; yet, as it seems to me, it has no bearing on the question—what each person ought to pay annually in the absence of a composition.

But I will carry this fictitious redemption one step further. It might be inconvenient to some of these persons to lay down so large a sum as thirty or sixteen years' purchase of the tax; and an option might be given to pay a fixed annual sum in perpetuity. What would each pay? The owner of Consols would pay the most, because the Consols are arbitrarily set down at par, while the land is set down to yield $3\frac{1}{2}$ per cent. But if we say that the land and the Consols yield the same rate of interest, viz., 3 per cent., then each of them will be taxed at 1s. in perpetuity. The life tenant of the land and the reversioner would make up the 1s. between them. In short, the perpetuities would pay just as they do now. But the temporary incomes are differently circumstanced; if they are to pay in perpetuity, their rate must be lower. The owners of houses which were worth sixteen years' purchase would pay at 6d. in perpetuity. We might add to these a professional man, with an income worth eight years' purchase, and who would pay at 3d. in perpetuity.

This arrangement, however, would not be feasible; because the physician would have no security to give for the payment of the composition after his death; and the houses would furnish security for their owner, for a term of years only, and not for a perpetuity. These temporary incomes, therefore, must necessarily pay either a composition at once or an annual rate so long as the incomes subsist; and this annual rate will be precisely 1s. in the pound. The present value of 1s. in the pound annually on the houses is 16s.; the present value of 1s. in the pound annually on the medical income is 8s.; and these present values of the tax which the owners of these incomes will annually pay, bear the same proportion to the present values of the tax which the owners of land and Consols will pay, that the present values of the houses and medical fees bear to the present values of the land and Consols. Dr. Farr seems to me to have made a fatal error, in overlooking the fact, that when he capitalized the annual values of the properties, he ought also to have capitalized the annual taxes paid upon them.

3. Mr. J. S. Mill's opinions are worthy of particular attention. He is strongly opposed to Dr. Farr's plan, as involving palpable arithmetical fallacies. His own leading conception is, that savings from income ought not to be taxed; because, when invested, they yield an income which will itself be subject to tax. A curious case might occur under such a rule of exemption if carried out individually. A man might have a property of 1,000*l.* a-year; and saving the whole of the income, and reinvesting at 5 per cent., he might, in a long life, increase his property to 10,000*l.* a-year, without ever having paid a penny for the protection afforded to it by Government.

To this opinion of Mr. Mill I have already objected. If I have this year an income of 1,000*l.*, I ought to pay the expense incurred by Government in protecting that income. The fact of my having saved 500*l.* of it, has in nowise diminished the Government expenditure on my behalf; and if, next year, my income is increased by 25*l.*, I ought to pay for the protection of this 25*l.*

But even if savings ought not to be taxed, how are we to assess them so as to grant the exemption? Mr. Mill confesses that it is impossible to deal with each case *individually*; but he thinks the principle may be applied to *classes* of persons. He contends that certain classes may be *presumed* to save; these classes consisting of persons who have the strongest motives for saving, in consequence of the temporary or precarious nature of their incomes. He would exclude, however, the life tenants in settled property.

Mr. Mill's first proposition then is, that savings ought to be exempted. But he exhibited in his evidence a decided wish that professional men should, if possible, have a greater reduction on their whole incomes than traders. He was asked whether he desired this on the ground that the savings from professional incomes are greater than the savings from trading incomes. He confessed that professional men do not save a greater proportion of their incomes than traders save. But as he would deal with classes, not with individuals; and as the class of professional men has the stronger inducement to save, in consequence of the more precarious character of the income earned; he would *presume* that professional savings exceed trade savings, and would wish their taxation reduced accordingly.

Now it may, perhaps, be thought impossible to prove that one class saves a greater proportion of its income than another class; though I have no hesitation in saying, that within my own range of observation, numbers of fortunes are saved by traders, and few indeed by professional men; almost nothing by divinity, little by medicine, an occasional fortune by law. But if Mr. Mill had heard the evidence given by other witnesses, he would have been slow in

founding any argument on a presumption flatly contradicted by the testimony of competent judges.

The Committee examined three medical men—Mr. Lewis, Mr. Fergusson, and Dr. Webster. All these gentlemen strongly advocated the claims of the Faculty. In order to support Mr. Mill's presumption, they ought to have asked for a reduction of the tax of their brethren on the ground, that in consequence of the temporary and precarious character of their incomes, they were obliged to save a large proportion of them; and that these savings ought to be exempted. I am sincerely sorry to say that their argument was a very different one. Instead of dwelling on the savings effected by the Faculty, these gentlemen asserted that the incomes earned are generally miserably small; and that it is so late in life before a man gets so much as a decent maintenance, that to save at all was impossible; and that only a small number even of life insurances are effected. If, therefore, savings are to constitute the ground of reduction, medical men are out of court.

Evidence again, was given as to the solicitors of the kingdom. Mr. Cookson, President of the Incorporated Law Society, said that the greater number of the profession have very limited means. He stoutly fought their battle for a reduced rate; but he did not rest their claim, as according to Mr. Mill, he ought to have rested it, on the ground that the temporary and precarious character of their incomes caused them to save a large proportion of them; and that these savings ought to be tax free until they were invested. He rested their claim on the ground, that of the 10,000 attorneys in England and Wales, 9,000 feel painfully the pressure of the tax; and he demanded relief, not for 1,000 richer members, by whom, no doubt, the savings of the profession are effected, but for the 9,000 poorer members whose capital is so small, that they are obliged to ask their clients before-hand for any heavy fees to counsel or any considerable probate duty; and who earn so little that a marvellous number of them apply for any vacant clerkship or secretaryship. It is useless for Mr. Mill to *presume* savings, when there is direct evidence that they do not exist.

No evidence was tendered as to the working clergy: but all who are acquainted with the subject, will agree, that in no other class is there a more life and death struggle with poverty. A clergyman is *ex officio* a gentleman, and is bound to make a decent appearance, and to bring up his family as ladies and gentlemen. Ask any one who goes behind the scenes, who knows something more than the outside suit of decent black, who has to do with schools for the families of clergymen, who is concerned with societies privately conducted, for distributing to the most necessitous (I blush to mention it) the cast off clothes of the laity; and you will be fur-

nished with tales of distress that are appalling. As to savings for the future, men do not put by part of their income until they have provided the necessities of life. Men buy bread and clothes in preference to Consols and India Bonds.

Mr. Mill, I think, in presuming the fact of savings on the part of persons having temporary or precarious incomes, overlooked a highly important feature of the case. That *other things being the same*, such persons are more bound to save, and are more likely to save, than are the possessors of permanent incomes, is undeniable. But other things are not the same. The evidence I have quoted shows that, as regards professional men, the temporary and precarious incomes are also in most cases, small incomes. Now, in order to effect accumulation, there must be not only the motive to save, but also the means of saving; there must be not only the desire to accumulate, but also the surplus income from which to accumulate. A labourer on 15s. a-week, with a wife and a young family, can scarcely save anything, and ought not to save anything considerable, because he cannot do so without cruelly pinching his family. To live worse than a pauper now, lest one should become a pauper hereafter, is a folly. A clergyman on 150l. a-year, with a wife and family, can save only by living like a miser; by sacrificing present life to the future means of living. To presume savings from the labourer and the clergyman, from men steeped in poverty, is to overlook the facts of every day life.

Another objection to Mr. Mill's opinions, and one urged upon him in Committee, was this:—that as savings are in fact, made generally by persons with surplus incomes, and not by persons with narrow though precarious incomes, the result of exemption granted to actual savings would be to benefit the comparatively rich. But if for this reason, *actual* savings ought not to constitute a ground for exemption, *presumed* savings certainly cannot constitute such ground.

XI.—*Mercy as well as Justice required. Present Exemption of Incomes under 100l. a-year; Justice of this. Proposed Deduction of 100l. from all Assessments. Graduation an apparent result: Answer. My own Inconsistency.*

Such, then, appears to me to be the justice of the case. Having regard to justice only, and excluding the small part of the Government expenditure which is directed to purposes other than protection of the subject, taxes ought to be levied in proportion to the incomes enjoyed under the protection of the State. But justice is not the only principle on which Government is conducted and ought to be conducted; mercy is as much the duty of nations as of individuals. Nor can it be alleged that in the administration of this country mercy has been forgotten; the six or seven millions

annually spent in relief of the poor, are sufficient to rebut such an accusation.

But this quality of mercy, which the nation strains so far as to save the unthrifty, and even the dissolute, from the resulting destitution, ought to be extended to the really poor among the middle classes; and it is so extended when persons having less than 100*l.* a-year are exempted from income tax. There would be a real hardship in taking this tax from the middle classes of a lower grade of fortune than this; for it is a harsh, unbending tax, and sins against Montesquieu's advice, so to levy taxes that they shall be little felt. A destitute family can avoid many expenditure taxes, by confining its consumption to the necessities of life; but the arbitrary demand for so many pounds, shillings, and pence, must be satisfied.

And I think there is more than mercy in the case. I have hitherto regarded the Government expenditure as incurred for the protection of the subject; and so it is principally, but yet not entirely. There are local rates for the relief of the poor; ought the middle class poor to be made to contribute? A considerable sum is spent by the general Government, and most usefully spent, in promoting education. Is it right to call on the poor surgeon, and the poor clergyman, and the poor widow, to contribute to the education of the labourer's children, when they are at their wits end how to educate their own children? Our army and navy, again, are principally employed in securing us and our dependencies from violence, but not altogether; some part of their expenditure is incurred, and long may it be incurred, in promoting the greatness and glory of the nation. Now a poor solicitor, or a poor tradesman, may be as patriotic as his richer neighbour; and yet he may feel that until his family is decently provided for, no part of his means ought to be diverted even to so good an object as the greatness of his country. Money laid out for his protection he ought to repay, but he may be excused if he claims to be exempted from taxes to supply what he must regard as the superfluous expenditure of the Government. The means for that expenditure ought to be supplied by persons of competent incomes. Now, if the whole national revenue were supplied by one tax, it would be necessary to reduce the rate on small incomes; but as only a small part of the revenue is supplied by the income tax, it is right to exempt small incomes altogether.

Many persons however, are dissatisfied with one part of the manner of exemption. A man with 105*l.* a-year feels it very hard that he should pay 2*l.* to 4*l.*, while his neighbour with 100*l.* a-year pays nothing. On the face of the subject, it appears that the fair arrangement would be to tax every one on the excess above 100*l.* a-year, so that 105*l.* would pay tax on 5*l.*; 200*l.* would pay on 100*l.*; 1,000*l.* would pay on 900*l.*

This obvious and hackneyed alteration, was mentioned in Committee, but was not much discussed. The principal objection made, was, that the alteration would cause a great number of claims, so small as not to be worth enforcing. At the present rate of 9*d.* in the pound, an income of 105*l.* would pay only 3*s.* 9*d.* Too much was made of this. I have noticed that such small matters as Easter Dues and Vicarial Tithes are regularly collected, though some of the claims may not exceed 1*s.* Traders also, collect all their accounts, however small some may be. The explanation is this:—all who have paid considerable rates or taxes, know that it is the considerable amounts which are first looked up, in order that the collector may soon pay in a large proportion of his whole liabilities. Then the moderate amounts are got in; and, last of all, when the collector has time of little value, the half-crowns and shillings are carefully gathered up.

But there is another consideration of a more serious character; and that is the alteration of incidence which would follow the proposed mode of exemption. The relief granted to the income of 105*l.*, would cause an additional burden to some one. The reduction of all assessments by 100*l.*, would cause so great a diminution in the proceeds of the tax, that a higher rate would have to be imposed. The income of 105*l.* therefore, would not gain the whole exemption on 100*l.*, because he would pay at a rather higher rate than before on the 5*l.* still assessed; this, however, would be a trifle. The income of 1,000*l.* being assessed at only 900*l.*, would escape one hundred ninepences, but would pay a much larger sum than this 3*l.* 15*s.*, because he would be charged at a higher rate on the 900*l.*

There is a certain boundary, somewhere between 100*l.* and 1,000*l.*; and all incomes on one side of this boundary would be gainers by the proposed exemption; all the incomes on the other side would be losers. For the sake of illustration, say that the loss to the revenue being about a million, it would take another 1*d.* of income tax to replace it, so that we should now have to pay at 10*d.* instead of at 9*d.* Then neglecting the present reduction on incomes between 100*l.* and 150*l.*, the man who has 105*l.* a-year, and now pays 105 ninepences (or 3*l.* 18*s.* 9*d.*), would then pay five tenpences (or 4*s.* 2*d.*), and would be a gainer of 3*l.* 14*s.* 7*d.* The man who with 1,000*l.* a-year now pays 37*l.* 10*s.*, would still pay 37*l.* 10*s.* All persons having a less income than 1,000*l.* a-year, would be benefited; all persons having more than 1,000*l.* a-year, would be injured. An income of 2,000*l.* would pay 4*l.* 3*s.* 4*d.* additional; an income of 10,000*l.* would pay 37*l.* 10*s.* additional.

If, still for the sake of illustration, we state the loss to Government by the change at something more than two millions, we should be taxed at 11*d.* in place of our present 9*d.* When I assumed the

additional tax at 1*l.*, I found that the boundary line between the gainers and the losers was 1,000*l.* a-year; now I assume the additional tax at 2*l.*, I find that the boundary line is 550*l.* a-year. All persons with incomes under 550*l.* would be gainers, all with incomes over 550*l.* would be losers.

It must be confessed that a plan which calls upon rich men to pay more in order that poor men may pay less, and not only to pay more, but to pay a larger proportion as the income increases, has something of the odious appearance of graduation; and it would require careful consideration, before we adopted any plan, which seemed to countenance the notion, that there should be one price of Government protection for the rich and another price for the poor. But, on the other hand, it is one thing to adopt graduation as one of the canons of taxation, and another thing to accept graduation in a particular case, as an incidental result of a scheme otherwise desirable. Besides, I recommend this plan of exemption altogether on the score of justice; we also abstain from graduation on the score of justice. It can hardly be true, that the exemption is just, and the graduation it involves is unjust. The explanation, I believe, is this:—the owner of 2,000*l.* a-year would have his assessment increased by the exemption; the owner of 10,000*l.* a-year would have his assessment increased in a still higher proportion. But the standard by which the increase is measured, is the present assessment, and this present assessment I hold to be unjust, because it over-taxes small incomes from 100*l.* a-year upwards. If this unjust assessment had never been made, no comparison would have arisen between it and the new assessment.

If, then, this apparent graduation may be disregarded, we should do well, I think, in adopting this simple plan of taxing everyone on the excess of income above 100*l.* a-year. This would give all the relief asked for by Mr. Cookson and others, on behalf of the lower class of incomes; and it would justly excuse the poorer of the middle classes from contributing to that part of the Government expenditure, which such persons may fairly regard as superfluous, however desirable.

Finally, I may be asked how I can reconcile my present opinions with those I professed last year. I am obliged to confess that I cannot reconcile them. In one respect only am I consistent; I *then* differed from Mr. Warburton, I *now* differ from Mr. Warburton; but even this degree of consistency is purely a matter of accident. The essential difference between my two sets of opinions is easily explained. I did not then apprehend the principle on which all my present argumentation is founded; the principle that every man ought to pay taxes in proportion to the cost incurred by Government for his protection.

XII.—*Summary.*

In a paper which I read before the Statistical Society, in April, 1861, I maintained the opinion that the income tax ought to be a discriminating one, and ought to be levied at a different rate on temporary and on permanent incomes. I still think that the income tax ought to be a discriminating one, but in a different mode, as to different classes, and for different reasons. After reading the evidence before the House of Commons' Committee, I am of opinion that the most useful measure of relief would be simply to deduct 100*l.* a-year from every assessment whatever, so that an income of 105*l.* should pay only on 5*l.*

The ground on which I rest my case is this :—I divide the whole expenditure of Government into two unequal portions, the larger consisting of that part necessarily incurred for the protection of person and property, both from internal and external depredators; the smaller consisting of that part, advantageously but not necessarily incurred, for education, for promotion of the fine arts, for the pomp and glitter of royalty, for the maintenance and increase abroad of the greatness and glory of the nation.

1. The necessary expenditure is by far the larger portion, if we include in it the interest on the national debt, nearly all of which was contracted with more or less wisdom and more or less frugality, in external military and naval operations. Persons who hold that this debt was unjustly or improvidently contracted, may regard part or the whole of the interest as belonging to the head of superfluous expenditure.

Now, I hold that everyone ought to reimburse to the Government that part of the necessary expenditure which is incurred on his behalf. What that part is, it is impossible to calculate individually; it is assumed that it is proportionate to each man's income. Further investigation may show that an *earned* income involves more cost to Government than an *independent* income costs—or the reverse may be the case.

The error that has vitiated most reasonings on this topic, is this : Assessments having been made in proportion to men's incomes, it has been inferred that the burden ought to be laid on in proportion as persons are able to bear it; whereas, as I contend, the income is taken merely as the nearest measure of the cost incurred by Government on such man's behalf.

This principle of justice—this rule that each man should pay for Government protection just as he pays for the commodities he buys, does away at once with all the proposals to modify assessments according to age, tenure of income, and savings effected or presumed; because an old man, a man of temporary income, or a frugal

man, causes just as much present cost to the Government, as a young man, a man of permanent income, or a man who spends his income.

Much light is thrown on this part of the subject, by dividing Government expenditure into the current expenses of the year, and permanent improvements, such as fortifications. The arguments used in favour of modifying the assessments of old men, &c., have great force as applied to permanent improvements effected by Government.

Another inference is inevitable. It has been held by Mr. Warburton and others, that an undiscriminating tax is just, but only on this condition, that the rate should be uniform from year to year. Clogged with this condition, the opinion has no practical value; since the income tax has not hitherto been uniform from year to year, and is not likely to become so. My view of the principle of taxation does away with this apparent necessity for uniformity.

2. Now, as to that part of the Government expenditure which persons of narrow means may fairly regard as superfluous, I hold, with regard to local rates, that persons of very limited means ought to pay for police, for administration of justice, for cleansing of streets; because the cost of these things is incurred for the benefit of all; but I cannot see the justice of rating such persons for the relief of the poor. The poor law funds ought, I think, to be supplied altogether by persons who have no difficulty in maintaining and decently educating their own families.* So with respect to the expenditure of the general Government; the same class ought not to be taxed for education, promotion of the fine arts, and maintenance of the glory of the nation.

On this ground I rest my defence of the proposed deduction of 100*l.* a-year from every assessment,—a change that would relieve the lowest class of incomes considerably, and would throw the charge of the superfluous expenditure more upon the richer men, who could scarcely complain of this moderate addition to their burdens. I do not regard the deduction of 100*l.* a-year from all assessments, as precisely that measure of relief which the struggling classes are entitled to; a more minute investigation might lead us to adopt a different scale. I do not think, however, that this relief can be too great; and I advocate the granting it, because I see little practical difficulty in the way, and because I see that it would satisfy the loud demand for a change which justice itself requires.

I am convinced besides, that the present tax is unjustly levied as regards houses, mines, quarries, and purchased terminable annuities; I am not clear, however, as to purchased life annuities. I further think that Section 133 gives an unfair reduction to traders.

* In point of *justice merely*, the poor law funds ought to be raised by those who are likely to benefit by them; that is by the labouring classes. Those funds, so raised, would constitute a great National Benefit Society.